

CITY OF SULLY, IOWA

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2008

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CITY OF SULLY, IOWA

CITY OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January, 2008)		
Gordon Yarrington	Mayor	January, 2009
Arie Scholten	Council Member	January, 2008
William Zylstra	Council Member	January, 2008
Robert Nikkel	Council Member	January, 2009
Brent Vander Molen	Council Member	January, 2009
Wesley Van Wyk	Council Member	January, 2009
(After January, 2008)		
Gordon Yarrington	Mayor	January, 2009
Robert Nikkel	Council Member	January, 2009
Brent Vander Molen	Council Member	January, 2009
Wesley Van Wyk	Council member	January, 2009
Doug Huyser	Council Member	January, 2010
Chad Fiske	Council Member	January, 2010
Barbra Maasdam	Clerk/Treasurer	Indefinite
Timothy Tripp	Attorney	December 31, 2008



Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:
City of Sully, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and aggregate remaining fund information of the City of Sully, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Sully's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sully as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Governmental Auditing Standards, we have also issued our report dated November 5, 2008, on our consideration of the City of Sully's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 9 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sully's basic financial statements. The financial statements were not audited in the last three (3) years. The supplemental information included in Schedules 1 through 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

November 5, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Sully provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow. The financial statements were not audited last year as the City is only required to have an audit performed every four years; therefore we are not including information for comparative purposes.

2008 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased approximately \$320,659 from fiscal 2007 to fiscal 2008 primarily due to the Northridge Estates capital project in fiscal 2007. Property tax increased approximately \$33,556.
- Disbursements decreased approximately \$85,206 in fiscal 2008 from fiscal 2007. Public safety, public works, and community and economic development disbursements increased while disbursements in culture and recreation, general government, debt service and capital projects decreased.
- The City's total cash basis net assets decreased approximately \$155,000 from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities decreased approximately \$134,000 and the assets of the business type activities decreased by approximately \$21,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water works, sanitary sewer system, and the garbage. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road use Tax, Local Option Sales Tax, and Urban Renewal TIF Increment, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and garbage funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased by approximately \$134,000 from the previous year.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in thousands)	
	Year ended June 30, 2008
Receipts and transfers:	
Program receipts:	
Operating grants, contributions and restricted interest	\$ 194
General receipts:	
Property tax	151
Debt service	47
Local option sales and services tax	70
Tax increment financing collections	89
Unrestricted interest earnings	32
Transfers	(11)
Miscellaneous	13
Total receipts and transfers	<u>585</u>
Disbursements:	
Public safety	28
Public works	103
Culture and recreation	102
Community and economic development	89
General government	94
Capital projects	141
Debt service	162
Total disbursements	<u>719</u>
Increase (decrease) in cash basis net assets	(134)
Cash basis net assets beginning of year, as restated	<u>514</u>
Cash basis net assets end of year	<u><u>\$ 380</u></u>

The City's total receipts and expenditures for business type activities also decreased from the previous year.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in thousands)	
	Year ended June 30, 2008
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 180
Sewer	95
Garbage	32
General receipts:	
Unrestricted interest earnings	7
Transfers	11
Total receipts	<u>325</u>
Disbursements:	
Water	214
Sewer	102
Garbage	30
Total disbursements and transfers:	<u>346</u>
Increase (decrease) in cash balance	(21)
Cash basis net assets beginning of year	<u>362</u>
Cash basis net assets end of year	<u>\$ 341</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Sully completed the year, its governmental funds reported a combined fund balance of \$337,339 which was a decrease from the previous year. Following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The Road Use Tax Fund cash balance decreased by \$21,991
- The Capital Projects Fund decreased by \$125,437

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$33,735 to \$150,036
- The Sewer Fund cash balance decreased by \$8,700 to \$78,407

DEBT ADMINISTRATION

At June 30, 2008, the City had approximately \$1,382,000 in bonds and other long-term debt, compared to approximately \$1,577,000 last year, as shown below.

Outstanding Debt at Year-End		
(Expressed in Thousands)		
	June 30,	
	2008	2007
General obligation bonds	\$ 410	460
Urban renewal tax increment financing notes	312	396
Revenue notes	660	721
Total	<u>\$ 1,382</u>	<u>1,577</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below its constitutional debt limit of \$1,952,154.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment increased revenues by \$122,104 and increased expenditures by \$402,366. The City ended the year with revenues under budget by \$10,706 and expenditures under budget by \$129,646.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Barbra Maasdam, City Clerk/Treasurer, P.O. Box 247, Sully, Iowa, 50251.

CITY OF SULLY, IOWA

Basic Financial Statements

CITY OF SULLY, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the year ended June 30, 2008

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Primary government:			
Governmental activities:			
Public safety	\$ 28,639	-	
Public works	102,681	-	90,479
Culture and recreation	101,652	-	65,391
Community and economic development	89,070	-	37,867
General government	94,070	-	-
Capital Projects	140,951	-	-
Debt service	162,322	-	-
Total governmental activities	719,385	-	193,737
Business type activities:			
Water	214,057	179,682	-
Sewer	101,703	94,763	-
Garbage	29,716	31,874	-
Total business type activities	345,476	306,319	-
Total primary government	\$ 1,064,861	306,319	193,737
General Receipts:			
Property tax levied for:			
General purposes			
Debt Service			
Local option sales tax			
Tax increment financing collections			
Unrestricted interest on investments			
Transfers			
Sale of capital assets			
Miscellaneous			
Total general receipts			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
Cash Basis Net Assets			
Restricted:			
Debt service/improvements			
Permanent endowment fund:			
Unrestricted			
Total cash basis net assets			

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Primary Government		
Governmental Activities	Business Type Activities	Total
(28,639)	-	(28,639)
(12,202)	-	(12,202)
(36,261)	-	(36,261)
(51,203)	-	(51,203)
(94,070)	-	(94,070)
(140,951)	-	(140,951)
(162,322)	-	(162,322)
(525,648)	-	(525,648)
-	(34,375)	(34,375)
-	(6,940)	(6,940)
-	2,158	2,158
-	(39,157)	(39,157)
(525,648)	(39,157)	(564,805)
\$ 150,714	-	150,714
46,968	-	46,968
70,248	-	70,248
89,685	-	89,685
31,894	7,228	39,122
(10,700)	10,700	-
80	-	80
13,043	340	13,383
391,932	18,268	410,200
(133,716)	(20,889)	(154,605)
513,599	361,627	875,226
\$ 379,883	340,738	720,621
\$ 265	67,008	67,273
379,618	273,730	653,348
\$ 379,883	340,738	720,621

CITY OF SULLY, IOWA
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 GOVERNMENTAL FUNDS
 As of and for the year ended June 30, 2008

		Special Revenue					
	General	Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment	Debt Service	Capital Projects	Total
Receipts:							
Property tax	\$ 150,181	-	-	-	46,968	-	197,149
Tax increment financing collections		-	-	89,685	-	-	89,685
Other city taxes	533	-	70,248	-	-	-	70,781
Licenses and permits	770	-	-	-	-	-	770
Use of money and property	29,408	-	-	-	-	-	29,408
Intergovernmental	54,081	77,448	-	-	-	-	131,529
Charges for service	62,208	-	-	-	-	-	62,208
Private contributions	3,167	-	-	-	-	-	3,167
Miscellaneous	2,406	1,886	-	-	-	4,814	9,106
Total receipts	302,754	79,334	70,248	89,685	46,968	4,814	593,803
Disbursements:							
Operating:							
Public safety	28,639	-	-	-	-	-	28,639
Public works	10,356	92,325	-	-	-	-	102,681
Culture and recreation	101,652	-	-	-	-	-	101,652
Community and economic development	70,203	-	18,867	-	-	-	89,070
General government	94,070	-	-	-	-	-	94,070
Debt Service				89,780	72,542		162,322
Capital Projects						130,251	130,251
Total disbursements	304,920	92,325	18,867	89,780	72,542	130,251	708,685
Excess of receipts over disbursements	(2,166)	(12,991)	51,381	(95)	(25,574)	(125,437)	(114,882)
Other financing sources (uses):							
Sale of capital assets	80						80
Operating transfers in					25,624		25,624
Operating transfers out	(1,700)	(9,000)	(25,624)				(36,324)
Total other financing sources (uses)	(1,620)	(9,000)	(25,624)	-	25,624	-	(10,620)
Net change in cash balances	(3,786)	(21,991)	25,757	(95)	50	(125,437)	(125,502)
Cash balances beginning of year	255,317	66,659	43,236	28,585	215	68,829	462,841
Cash balances end of year	\$ 251,531	44,668	68,993	28,490	265	(56,608)	337,339
Cash Basis Fund Balances							
Reserved:							
Debt service/improvement	\$ -	-	-	-	265	-	265
Unreserved:							
General Fund	251,531	-	-	-	-	-	251,531
Special revenue funds	-	44,668	68,993	28,490	-	-	142,151
Capital projects funds	-	-	-	-	-	(56,608)	(56,608)
Total cash basis fund balances	\$ 251,531	44,668	68,993	28,490	265	(56,608)	337,339

See notes to financial statements.

CITY OF SULLY, IOWA
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
 GOVERNMENTAL FUNDS
 As of and for the year ended June 30, 2008

Total governmental funds cash balances (Exhibit B)	\$	337,339
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***Amounts reported for governmental activities in the Statement of
 Activities and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of equipment to individual funds. A portion of the assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

42,544

Cash basis net assets of governmental activities (Exhibit A)	\$	<u>379,883</u>
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Net change in cash balances (Exhibit B)	\$	(125,502)
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***Amounts reported for governmental activities in the Statement of
 Activities and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of equipment to individual funds. A portion of the change in net assets of the Internal Service Fund is reported with governmental activities.

(8,214)

Change in cash basis net assets of governmental activities (Exhibit A)	\$	<u>(133,716)</u>
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See notes to financial statements.

CITY OF SULLY, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As of and for the year ended June 30, 2008

	Enterprise Funds			Total	Non-major Internal Service Fund Equipment Replacement
	Water	Sewer	Garbage		
Operating receipts:					
Charges for service	\$ 179,682	94,763	31,874	306,319	-
Miscellaneous	340	-	-	340	-
Total operating receipts	180,022	94,763	31,874	306,659	-
Operating disbursements:					
Business type activities	172,068	50,619	29,716	252,403	16,800
Total operating disbursements	172,068	50,619	29,716	252,403	16,800
Excess of operating receipts over operating disbursements	7,954	44,144	2,158	54,256	(16,800)
Non-operating receipts (disbursements):					
Interest on investments	1,500	1,500	500	3,500	6,214
Debt service	(39,389)	(47,584)	-	(86,973)	-
Total non-operating receipts (disbursements)	(37,889)	(46,084)	500	(83,473)	6,214
Excess of receipts over disbursements	(29,935)	(1,940)	2,658	(29,217)	(10,586)
Operating transfers in	-	-	-	-	21,260
Operating transfers out	(3,800)	(6,760)	-	(10,560)	-
Net change in cash balances	(33,735)	(8,700)	2,658	(39,777)	10,674
Cash balances beginning of year	183,771	87,107	14,611	285,489	126,896
Cash balances end of year	\$ 150,036	78,407	17,269	245,712	137,570
Cash Basis Fund Balances					
Reserved for debt service	\$ 53,293	13,715	-	67,008	-
Unreserved	96,743	64,692	17,269	178,704	137,570
Total cash basis fund balances	\$ 150,036	78,407	17,269	245,712	137,570

See notes to financial statements.

CITY OF SULLY, IOWA
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
 PROPRIETARY FUNDS
 As of and for the year ended June 30, 2008

Total enterprise funds cash balances (Exhibit D)	\$	245,712
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Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of equipment to individual funds. A portion of the assets of the Internal Service Fund are included in the business type activities in the Statement of Net Assets.

95,026

Cash basis net assets of business type activities (Exhibit A)	\$	<u>340,738</u>
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Net change in cash balances (Exhibit B)	\$	(39,777)
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Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of equipment to individual funds. A portion of the change in net assets of the Internal Service Fund is reported with business type activities.

18,888

Change in cash basis net assets of business type activities (Exhibit A)	\$	<u>(20,889)</u>
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See notes to financial statements.

CITY OF SULLY, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

(1) **Summary of Significant Accounting Policies**

The City of Sully is a political subdivision of the State of Iowa located in Jasper County. It was first incorporated in 1901 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Sully has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets does not include fiduciary funds or component units that are fiduciary in nature. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, but can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general receipts.

CITY OF SULLY, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for recreation and economic development financed by local option sales tax.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those financed through the proprietary funds.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Garbage Fund accounts for the operation and maintenance of the garbage pickup in the City.

The City also reports the following additional non-major proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

CITY OF SULLY, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

C. Measurement Focus and Basis of Accounting

The City of Sully maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Reserved cash basis fund balances are for Debt Service purposes. All cash in the Debt Service Fund is reserved for Debt Service payments. Reserved net assets within the Water and Sewer Funds are those built up in the sinking funds which are meant to be used for debt payments.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the community and economic development function.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2008 the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Certificate of deposit	\$150,740	150,740	July-08
Certificate of deposit	100,234	100,234	August-08
Certificate of deposit	150,000	150,000	September-08
Certificate of deposit	150,000	150,000	October-08
Certificate of deposit	150,000	150,000	December-08
Total	<u>\$ 700,974</u>	<u>700,974</u>	

CITY OF SULLY, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

(3) Bonds Payable

Details of the City's June 30, 2008 bonded indebtedness are as follows:

Year ending June 30,	General Obligation Notes		Tax Increment Financing (TIF) Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 50,000	20,103	79,028	3,991	62,000	21,644	191,028	45,738
2010	50,000	17,648	79,028	2,515	62,000	19,641	191,028	39,803
2011	50,000	15,193	79,028	1,089	68,000	17,638	197,028	33,919
2012	50,000	12,738	50,000	-	69,000	15,450	169,000	28,188
2013	50,000	10,283	25,000	-	70,000	13,226	145,000	23,509
2014-2017	160,000	15,886	-	-	329,000	33,571	489,000	49,457
Total	\$ 410,000	91,849	312,084	7,595	660,000	121,170	1,382,084	220,613

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing and revenue bonds are listed on Schedule 1.

The City of Sully issued \$425,000 in general obligation bonds in August of 2001 for the purpose of carrying out a street improvement project. The City of Sully issued \$210,000 in general obligation bonds in August of 2006 for the purpose of carrying out a housing development project. The total principal and interest payments remaining on the two general obligation bond issues are \$501,849, payable through 2017.

The City of Sully issued \$450,000 of the urban renewal tax increment financing revenue bonds in January, 2004 for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The City of Sully issued \$100,000 of the urban renewal tax increment financing revenue bonds in September, 1994 for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The City of Sully issued \$145,140 of the urban renewal tax increment financing revenue bonds in March, 2006 for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for the purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City, however the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the bonds is \$319,679, payable through 2013. For the current year, interest paid and total TIF receipts were \$5,752 and \$89,685, respectively.

CITY OF SULLY, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$550,000 in water revenue notes issued in September 1999. Proceeds from the notes provided financing for water improvements. The notes are payable solely from water customer net receipts and are payable through 2019. Annual principal and interest payments on the notes are expected to require less than 80 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$425,940. For the current year, principal and interest paid and total customer net receipts were \$39,202 and \$179,682, respectively. The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$607,000 in sewer revenue notes issued in June 1995. Proceeds from the notes provided financing for the construction of improvements to the Sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2016. Annual principal and interest payments on the notes are expected to require less than 55 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$355,230. For the current year, principal and interest paid and total customer net receipts were \$45,410 and \$94,763, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) The City shall establish, impose, adjust and provide for the collection of rates to be charged to customers of the sewer utility so as to provide a balance of net revenues equal to at least 100% of the principal and interest on all the bonds due in each fiscal year.
- (c) Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (d) Transfers to a water reserve account and to a sewer reserve account within the Enterprise Funds have been made in excess of specific minimum balances. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(4) Pension and Retirement Benefits

The City of Sully contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2008 was \$6,523, equal to the required contribution.

CITY OF SULLY, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2008 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$1,751

This liability has been computed based on current rates of pay.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to:</u>	<u>Transfer from:</u>	<u>Amount</u>
Debt Service	Special Revenue: Local Option Sales Tax	\$ 25,624
Internal Service: Equipment	General	1,700
Internal Service: Equipment	Special Revenue: Road Use Tax	9,000
Internal Service: Equipment	Enterprise - Water	3,800
Internal Service: Equipment	Enterprise - Sewer	6,760

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$38,264 during the year ended June 30, 2008.

(8) Risk Management

The City of Sully is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Deficit Balance

The Capital Projects Fund had a deficit balance of \$56,608 at June 30, 2008.

City of Sully, Iowa

Required Supplementary Information

CITY OF SULLY, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS - REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Net
Receipts:				
Property tax	\$ 197,149	-	-	197,149
Tax increment financing collections	89,685	-	-	89,685
Other city tax	70,781	-	-	70,781
Licenses and permits	770	-	-	770
Use of money and property	29,408	9,714	6,214	32,908
Intergovernmental	131,529	-	-	131,529
Charges for services	62,208	306,319	-	368,527
Private contributions	3,167	-	-	3,167
Miscellaneous	9,106	340	-	9,446
Total receipts	593,803	316,373	6,214	903,962
Disbursements:				
Public safety	28,639	-	-	28,639
Public works	102,681	-	-	102,681
Culture and recreation	101,652	-	-	101,652
Community & economic development	89,070	-	-	89,070
General government	94,070	-	-	94,070
Debt service	162,322	-	-	162,322
Capital projects	130,251	16,800	16,800	130,251
Business type activities	-	339,376	-	339,376
Total disbursements	708,685	356,176	16,800	1,048,061
Excess (deficiency) of receipts over (under) disbursements	(114,882)	(39,803)	(10,586)	(144,099)
Other financing sources, net	(10,620)	10,700	21,260	(21,180)
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(125,502)	(29,103)	10,674	(165,279)
Balances beginning of year	462,841	412,385	126,896	748,330
Balances end of year	\$ 337,339	383,282	137,570	583,051

See accompanying independent auditor's report.

Budgeted Amounts		
Original	Final	Final to Net Variance
191,564	191,564	5,585
89,790	89,790	(105)
56,399	75,332	(4,551)
550	775	(5)
11,500	29,700	3,208
111,421	123,552	7,977
322,790	325,800	42,727
-	-	3,167
6,550	78,155	(68,709)
790,564	914,668	(10,706)
27,228	36,278	7,639
73,601	134,418	31,737
81,934	116,697	15,045
625	70,720	(18,350)
131,838	155,389	61,319
162,349	162,349	27
-	130,251	-
297,766	371,605	32,229
775,341	1,177,707	129,646
15,223	(263,039)	118,940
25,000	25,000	46,180
40,223	(238,039)	165,120
754,641	754,641	(6,311)
794,864	516,602	158,809

CITY OF SULLY, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
June 30, 2008

(1) Basis of Presentation

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$402,366. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the community and economic development function.

Other Supplementary Information

CITY OF SULLY, IOWA
SCHEDULE OF INDEBTEDNESS
Year ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest & Fees Paid	Interest Due and Unpaid
General obligation bonds:									
Street improvement	8/15/2001	5.10%	\$425,000	\$ 270,000	-	30,000	240,000	13,770	1,020
Development	8/28/2006	4.56%	210,000	190,000	-	20,000	170,000	8,772	655
				<u>\$ 460,000</u>	<u>-</u>	<u>50,000</u>	<u>410,000</u>	<u>22,542</u>	<u>1,675</u>
Urban renewal tax increment financing:									
Industrial	1/23/2004	0.00%	450,000	\$ 275,000	-	50,000	225,000	-	-
Community Center notes	9/12/1994	6.40%	100,000	5,000	-	5,000	-	309	-
Industrial	3/16/2006	5.00%	145,140	116,112	-	29,029	87,084	5,443	363
				<u>\$ 396,112</u>	<u>-</u>	<u>84,029</u>	<u>312,084</u>	<u>5,752</u>	<u>363</u>
Revenue bonds:									
Water	9/13/1999	3.53%	550,000	\$ 374,000	-	26,000	348,000	13,202	1,024
Sewer	6/27/1995	3.74%	607,000	347,000	-	35,000	312,000	10,410	780
				<u>\$ 721,000</u>	<u>-</u>	<u>61,000</u>	<u>660,000</u>	<u>23,612</u>	<u>1,804</u>

See accompanying independent auditor's report.

Schedule 2

CITY OF SULLY, IOWA
BOND AND NOTE MATURITIES
Year ended June 30, 2008

Year Ending June 30,	General Obligation Bond/Notes				Urban Renewal Tax Increment Financing			
	Street Improvement		Development		Industrial		Industrial	
	Issued 8-15-2001		Issued 8-28-2006		Issued 1-23-2004		Issued 3-16-2006	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2009	5.10%	\$ 30,000	4.56%	20,000	0.00%	\$ 50,000	5.00%	29,028
2010	5.10%	30,000	4.56%	20,000	0.00%	50,000	5.00%	29,028
2011	5.10%	30,000	4.56%	20,000	0.00%	50,000	5.00%	29,028
2012	5.10%	30,000	4.56%	20,000	0.00%	50,000		
2013	5.10%	30,000	4.56%	20,000	0.00%	25,000		
2014	5.10%	30,000	4.56%	20,000				
2015	5.10%	30,000	4.56%	25,000				
2016	5.10%	30,000	4.56%	25,000				
		<u>\$ 240,000</u>		<u>170,000</u>		<u>\$ 225,000</u>		<u>87,084</u>

Year Ending June 30,	Revenue Bonds			
	Water		Sewer	
	Issued 9-13-1999		Issued 6-27-1995	
	Interest Rates	Amount	Interest Rates	Amount
2009	3.53%	\$ 27,000	3.00%	35,000
2010	3.53%	27,000	3.00%	35,000
2011	3.53%	28,000	3.00%	40,000
2012	3.53%	29,000	3.00%	40,000
2013	3.53%	30,000	3.00%	40,000
2014	3.53%	32,000	3.00%	40,000
2015	3.53%	33,000	3.00%	40,000
2016	3.53%	34,000	3.00%	42,000
2017	3.53%	35,000		
2018	3.53%	36,000		
2019	3.53%	37,000		
		<u>\$ 348,000</u>		<u>312,000</u>

See accompanying independent auditor's report.

City of Sully, Iowa



Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards

To the Honorable Mayor and Members of the City Council
City of Sully, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sully, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 5, 2008. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Sully's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Sully's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Sully's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Sully's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Sully's financial statements that is more than inconsequential will not be prevented or detected by the City of Sully's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Sully's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-08 is a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sully's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Sully's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Sully's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sully and other parties to whom the City of Sully may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Sully during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

November 5, 2008

CITY OF SULLY, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2008

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

II-A-08 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should segregate duties to the extent possible with existing personnel and utilize Council members to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

Part III: Other Findings Related to Statutory Reporting:

III-A-08 Certified Budget - Disbursements during the year ended June 30, 2008 exceeded the budget in the community and economic development function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

CITY OF SULLY, IOWA
SCHEDULE OF FINDINGS

Year Ended June 30, 2008

III-B-08 Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-08 Travel Expense - No disbursements of City of Sully money for travel expenses of spouses of City officials or employees were noted.

III-D-08 Business Transactions

Business transactions between the City and City officials or employees for the year ended June 30, 2008 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Eric Jones, Library Trustee Owner, At Home Computers	Purchased wireless router	\$ 65
Wesley Van Wyk, Council Member Owner, Earth Works	Water valve project, Water repairs Northridge Estates construction	\$ 38,199

None of the transactions appear to be a conflict of interest and they appear to be in compliance with Council policies.

Recommendation - The City may want to consult legal counsel to determine disposition of this matter.

Response - We will consider the need to consult legal counsel.

Conclusion - Response accepted.

III-E-08 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

III-F-08 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-08 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

III-H-08 Revenue Bonds and Notes - The City of Sully has established proper accounts as required by the City revenue note resolution.